

# Building Sustainable Business Development Services: Empirical Evidence from Kenya

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*This is a PhD thesis that is ongoing. In this paper the authors investigate how sustainability of BDS can be explained; why some BDS providers succeed while others don't; what the successful BDS providers do differently from those who are not as successful. Grounded Theory is used and justification for its use is given. Data collection and analysis is still going on. Preliminary findings from the data so far collected and analyzed show that what makes sustainable BDS seems to vary from one individual provider or organization to another depending on the motivates for venturing into the business, the personal attributes of the provider, the business approach that the provider takes and on the prevailing external factors. Furthermore it depends on how sustainability has been defined.*

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## INTRODUCTION

Business Development Services (BDS) refers to a wide range of non financial services provided to small enterprises (SEs) to help them operate efficiently and to grow their business with the broader purpose of contributing to economic growth, employment generation and poverty alleviation (Miehlradt and Mc Vay 2003). BDS include; Market access, Input supply, Technology and product development, Training and technical assistance, Policy or advocacy, Infrastructure and Equity financing.

Small and Medium Enterprises (SMEs) play a major role at all levels of economic development in different countries. They generate much employment and are widely considered to be vital for competitiveness and economic growth (Caniels and Romijn 2005). However, smallness confers some inherent competitive disadvantages and that some sort of external support is warranted in order for small enterprises to reach their full potential (OECD 2004). Services to promote and enhance SME competitive performance therefore constitute important policy instruments in many countries, both developed and developing alike (ibid 2004).

Until the early 1990s, business support model was heavily supply driven; it was predominantly centrally organized and administered by governments, and heavily financed by foreign donors (Caniels and Romijn 2005). This 'conventional' approach to BDS, emphasized donors' (supply-side) view of what was good for SMEs, and focused on training and counseling while SMEs were seen as grateful beneficiaries of charity. These top-down programs suffered from widespread corruption and inefficiency, and lacked outreach, impact and relevance (ibid 2005).

These failures have resulted in a number of paradigm shifts in the support models for SMEs ranging from a commercial approach to a market development approach to BDS. A key feature under the commercial approach was that service delivery was organized along commercial lines with an indirect facilitative role of donors, NGOs and developmental agencies. Under the market development approach (whose principles were borrowed from Microfinance principles), BDS must be demand driven, relevant, participatory and cost effective. The desirable result is that numerous small enterprises buy BDS of their choice from a wide

selection of products offered (primarily) from unsubsidized, private sector suppliers in a competitive and evolving market (McVay and Miehlebradt 2001).

The market development approach to BDS represented a move forward in an attempt to address some of the shortcomings of earlier large scale publicly funded programmes (Mayoux 2006). However despite the manifold promotion programs, the great majority of small scale enterprises in developing countries remain sluggish activities, struggling for survival (Caniels and Romijn 2005). Empirical evidence shows that many small enterprise programmes based on the market driven principles still struggle for impact (ibid 2005); that majority of the programs and institutions designed to support small enterprises have reached and assisted only a minority of them, (ILO 2003). This raises the question as to how sustainable is the provision of BDS?

According to Committee of Donor Agencies (2001), BDS is sustainable if commercially-motivated revenues are at least as great as the full costs of service provision. Empirical literature shows that a number of factors influence performance namely characteristics of the business itself (size, location, legal form and the number of the owners), and the specific strategies a business adopts (Kotey and Meredith 1997). Factors that are related to entrepreneurial behaviour have also been hypothesized to influence entrepreneurial performance (e.g. Gorman 1997). MacMillan (1993) suggests that building contacts and networks are the fundamental factors in determining the success of any firm because through entrepreneurial networks, the entrepreneur can gather information; look for customers and supplies among others. Top management team (TMT) demographic characteristics have also been shown to influence performance of organizations (Hambrick and Mason 1984) while Miller and Toulouse (1986) showed that absolute performance was influenced by industry factors.

BDS transactions take various forms (McVay and Miehlebradt 2001). The level or volume of exchange or transaction that occurs between sellers and buyers of a given good or service determines a market's effectiveness (Gibson et al. 2001). Markets are effective when transactions take place. In the case of BDS, a market is effective when the consumer recognizes the causes of underperformance, concludes that a solution is required, and is willing to pay for a problem solving service while the provider has the abilities to present an attractive offer that the consumer wants and has the technical know-how to solve the problem with demonstrated positive impact on business performance (ibid, 2001).

From the literature review, there are many theories on firm success. Many of these studies have focused on businesses in general and/or mostly in developed countries hence their findings and conclusions may have limited applicability in developing countries and in particular may not explain the sustainability of BDS business. Anecdotal evidence in Kenya shows that there are commercial BDS providers who are providing BDS to SMEs. The paper therefore seeks to answer the following questions:

- (i) How can we explain the sustainability of BDS; why do some BDS Providers succeed while others don't?
- (ii) What do the successful BDS providers do differently from those who are not as successful?
- (iii) What factors influence actions of the BDS providers?

## **METHODOLOGY**

In this section we explain the method that was used to collect and analyze data. A qualitative design was used. Qualitative method is an umbrella term covering an array of interpretive techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning, not the frequency of certain more or less naturally occurring phenomena in the social world (Van Maanen 1979). Qualitative data are attractive for many reasons: they are rich, full, earthy, holistic, and "real"; their face validity seems unimpeachable; they preserve chronological flow where that is important, and suffer minimally from retrospective distortion, (Miles, 1979).

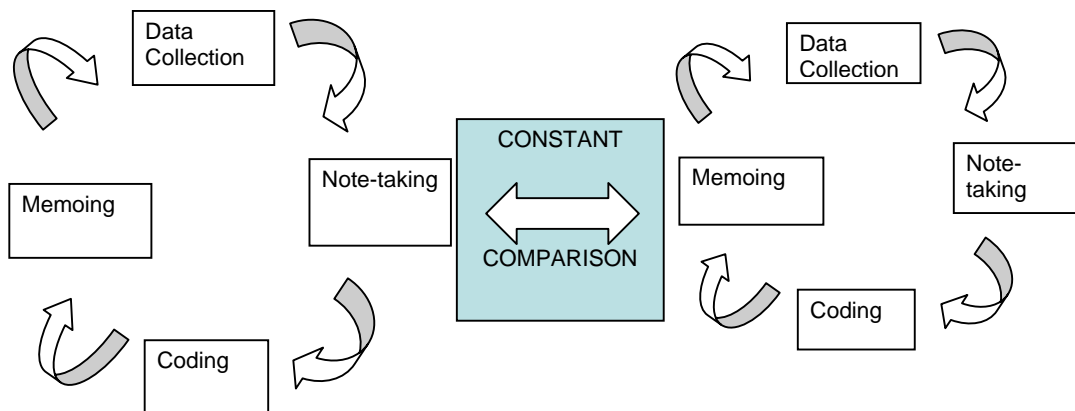
In a qualitative study, the activities of sampling, collecting and analyzing data, developing and modifying theory, elaborating and refocusing the research question and identifying and dealing with validity questions are going on more or less simultaneously, each influencing the others (Maxwell, 1998; Janesick, 1994). Qualitative methods are also able to analyze data in a way which enables the retention of their contextual nature, (Kaplan and Maxwell, 1994) where that is important. The goals of qualitative research involves understanding a phenomenon from the points of view of the participants and in its particular social and institutional context all of which are lost when textual data are quantified (Kaplan and Maxwell, 1994). Qualitative investigators also describe the unfolding of social processes rather than the social structures that are often the focus of quantitative researchers.

Specifically the study employed Grounded Theory- the ‘approach to discovering theory from data’ (Partington 2000). Grounded Theory is an interpretive qualitative research method originally conceived by Glaser and Strauss, (1967). Grounded Theory is an excellent tool of analysis of social phenomena, particularly when there is little known about the situation under investigation (Glaser and Strauss 1967; Martin and Taylor 1986) in this particular study how we can explain the sustainability of BDS. According to Yee (2001), the aim of Grounded Theory is to discover theory; grounded theorists want to know what is going on. The guiding principle in the selection of a sample is that it has to be information rich (Patton 1990). The researcher chooses any groups that will help generate to the fullest extent as many properties of a category and to relate to each other and to their properties (Glaser and Strauss 1967).

### Data Collection and Analysis

Under Grounded Theory, data collection, coding and analysis occur immediately, concurrently and throughout. The twin foundations of Grounded Theory are theoretical sampling and constant comparison. Under theoretical sampling, the process of data collection is controlled by emerging theory; new targets for data collection are directed by the results collected from the preceding sample; as theory emerges and investigation focuses, so too does the selective sampling. Theoretical sampling works by selecting subsequent subjects based on the information which emerges from the data already coded (Jones et al., 2005). As data is being coded, compared and accumulated to form categories and core categories, an ongoing process of sampling (theoretical sampling) takes place (ibid, 2005). Constant comparison method is a simultaneous and concurrent process of data coding and data analysis (Partington, 2000) see figure 3.1. Constant comparison continues until core categories emerge from the data and no new phenomena are reported in the data. Theoretical sampling and constant comparison lead the researcher through the exercise of theoretical discovery using Grounded Theory (Jones et al. 2005).

Figure 3.1 Constant Comparisons, (Glaser and Strauss 1967, Glaser, 1978)



The process of theoretical sampling and constant comparison may be summarized as follows: incidents of phenomena in the data are coded into categories. By comparing each incident with previous incidents in the same category, the researcher develops theoretical properties of categories and dimensions of those properties. As the study progresses the focus changes from comparing incidents with one another to comparing incidents with properties of the category that resulted from the initial comparisons of incidents. The theoretical sampling and constant comparison processes lead towards the theoretical saturation of a reduced set of categories within the boundaries of emerging theory. Eventually after a period of data collection, a point is reached where no new data result from additional data collection; this is the point of saturation (Jones et al. 2005). And as Selden (2005) puts it; one keeps on collecting data until one receives only already known statements.

In the current study, the researcher identified and approached the BDS providers who were willing to participate in the initial interview. These first participants were requested to tell their story. The issues that emerged from these initial interviews led to selection of other participants (*the process is still continuing*). From these initial interviews the study is becoming more and more focused towards the social concern under investigation (i.e. how we can explain the sustainability of BDS and why some BDS providers succeed while others do not). As the interviewees tell their story, the researcher probes in order to clarify issues and/or refocus the interview process. Throughout the interview process, the researcher is conscious that the interviewees are using words and phrases that are of importance or of interest to the research. These words or phrases are noted by the researcher notes them. After each interview process the researcher describes them in short phrases. Allan (2003) describes this process as ‘coding’ and the short descriptor phrase as a code. Grounded Theory uses the following levels of coding namely open coding, selective coding and theoretical coding (Jones et al. 2005) and axial coding (Glaser and Strauss 1998).

### **PRELIMINARY FINDINGS**

From the data so far collected and analyzed, the following findings are emerging: First that BDS providers like all other business people have different motivates for venturing into business. Some of the motives are: social concern, as a stepping stone to doing other business, the desire to explore, the desire for independence, the desire to fulfill childhood dreams and as a response to a market opportunity. The degree of the motives differs from one individual provider to another. These motives can broadly be classified as extrinsic and intrinsic motivators. Depending on the motives and the background of the providers and the prevailing external factors, different providers take different business approaches. Even for the same provider, the business approaches do shift over time and also vary depending on the nature of the services being offered.

From the data so far collected and analyzed, the following findings are emerging: First Figure 4.1 depicts emerging model of relationships between six variables namely: provider’s personal attributes, start –up motives, business approach, nature of BDS product, external factors and success. Provider’s personal attributes refer to the traits of the providers namely: self confidence, flexibility, level of experience, risk taking and knowledge and skills. Personal attributes are divided into two as acquired or learnt traits and innate (those that the provider is born with). It is emerging that there are certain traits that the providers acquire from the environment. Personal attributes of the providers influence the start up motives of the providers as well as their approach to business depicted by arrows **B** and **C** respectively.

External factors refer to those factors that arise from outside and over which the provider has no influence. They include competition, the presence of donor agencies, regulatory framework, culture of entrepreneurs, existence of associations and lobby groups, the knowledge of entrepreneurs and the economic environment. These factors seem to influence the personal attributes of the providers. This depicted by arrow **A**. Furthermore they have a direct influence on sustainability of BDS provision irrespective of the motives, business approach of the provider or the nature of the product. This is depicted by arrow **I**. The external environment are divided into two namely the macro and micro

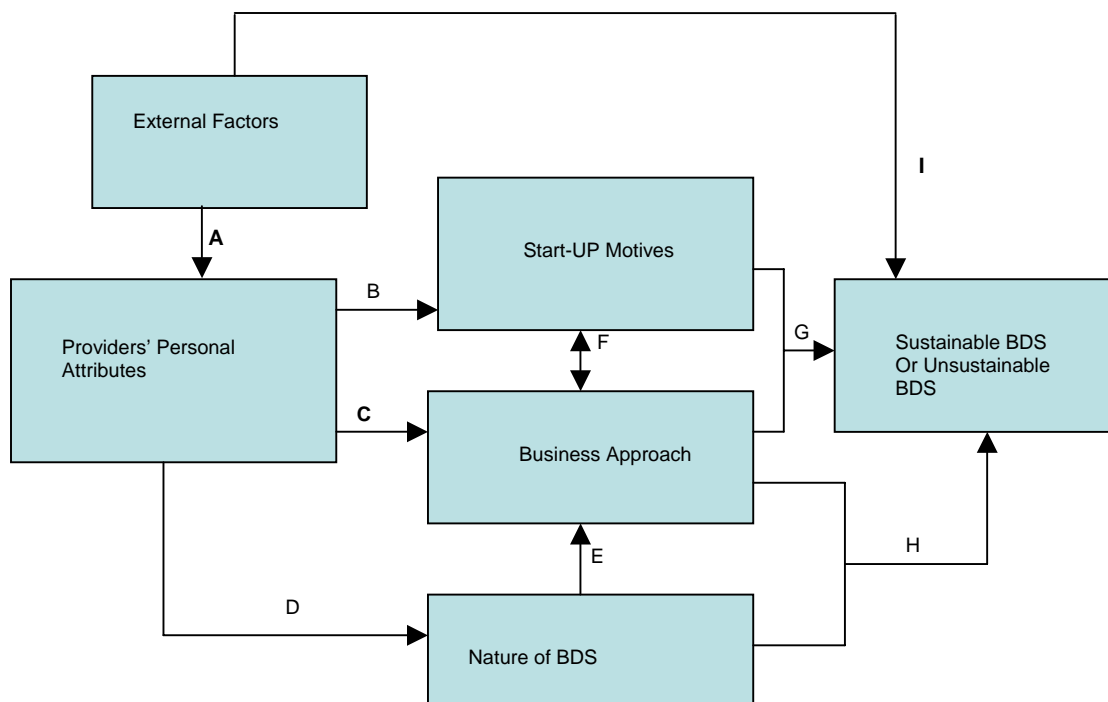
environments. The parameters in the macro environment include political/legal, economic and socio-cultural factors. The microeconomic environment include customers (clients) and competitors

BDS product is broadly divided into two depending on their perceived benefits to the clients namely those that have immediate (short term/ tangible) returns and those that have long term and/intangible returns. The nature of the BDS offered seems to influence the kind of business approach that providers take (represented by arrow **E**). And depending on the approach of the provider, the provision will be sustainable or otherwise. This is represented by arrow **H**.

Business approach refers to what the providers do in response to environmental changes. Business approach seems to be influenced by the motives of the providers but it also depends on the nature of the product that they offer arrow **E**. Furthermore, the nature of product that provider offer seems to be influenced by the personal attributes of the provider arrow **D**. The double sided arrow **F** between the start up motives and business approach shows that start up motives influence the provider's approach to business and vice versa.

The outcome of the actions of the BDS providers can either be sustainable or unsustainable. Arrows **G** and **H** shows that the provider's motives and his or her approach to business interact to determine the sustainability of BDS (arrow **G**) on one hand while the nature of the BDS product and the business approach interact on the other hand (arrow **H**).

The relationship between sustainability and the different variables are presented in figure 4.1:



Source: Author

## CONCLUSION AND IMPLICATIONS

Based on the analysis done so far, it is emerging that what makes sustainable BDS seems to vary from one individual provider to another or from one organization to another depending on the motives for venturing into the business, personal attributes of the provider, the business approach that the provider

takes and on the prevailing external factors. Furthermore it also depends on how sustainability itself is defined. On the basis of the final results of the study the researchers hope to develop new theoretical insights on sustainable BDS that will inform policy makers. The researcher also expects to develop a profile of successful BDS providers and a matrix of sustainable BDS.

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